

SECTION THREE: COUNTRY SPECIFIC ISSUES

CHAPTER TEN¹

The Cook Islands

Background

10.2 The Cook Islands are made up of a group of 15 atolls and islands located in the central Pacific Ocean approximately half way between New Zealand and Hawaii. The northern Cook Islands are seven low lying, sparsely populated coral atolls while the southern Cook Islands consists of eight elevated, fertile, volcanic islands where the majority of the population resides.

10.3 Named after Captain Cook who sighted the islands in 1770, the islands are believed to have been settled from nearby Tahiti around 800 years ago. The first European to discover the islands was the Spaniard Alvaro de Mendana in 1596.

10.4 The arrival in 1821 of the Reverend John Williams, from the London Missionary Society, had a deep and lasting effect on Cook Island society. The Polynesians embraced the Christian teachings of the missionaries and today, 70 per cent of Cook Islanders still belong to the Christian Church.

10.5 To prevent French expansion in the Pacific, the British declared a protectorate on the islands in 1888. The territory was annexed in 1901 by New Zealand and in 1965 the populace voted to become self-governing in association with New Zealand. The Cook Islands government has responsibility for internal affairs, whilst the New Zealand government retains responsibility for external matters such as defence. Cook Islanders also qualify as citizens of New Zealand.

10.6 The 25 members of the unicameral Cook Islands parliament are elected by popular vote to serve five year terms. The parliament is Westminster based with a Prime Minister chosen by the majority party. The Prime Minister in turn selects a six member cabinet. The House of Ariki (the hereditary chiefs) which represents all the islands has a consultative role in traditional matters such as custom, land tenure and land usage. The Cook Islands have retained the right to move to full independence at any time via unilateral action.

10.7 Tourism is the largest contributor to the economy although the government plans to further develop the marine resources contained within the Cook Islands'

1 Much of the information presented in these overviews is drawn from publicly available country briefs, factsheets and other information resources produced by government agencies and NGOs. Frequent use has been made of the information resources of Australia's Special Broadcasting Service, the US Central Intelligence Agency and of the Freedom House organisation.

200 nautical mile Exclusive Economic Zone. Future growth is expected from the sale of fishing licenses to foreign vessels and through the farming of black pearls. Major exports consist of copra and citrus fruit while manufacturing is limited to fruit processing, clothing and handicrafts. New Zealand is by far the largest foreign aid contributor, donating more than \$A5 million in development assistance in 2002–2003.

Current issues

10.8 The Cook Islands are currently suffering a steady decline in population due to migration to New Zealand. The islands are also heavily dependant on foreign aid, particularly from New Zealand. The country is struggling to grow its economy largely through a combined lack of natural resources and distance from major markets resulting in minimal export and manufacturing opportunities.

10.9 The Cook Islands are also an alleged centre for money laundering activities and, as mentioned in Chapter Seven, the Committee notes that the Cook Islands are listed as a ‘non-cooperative country or territory’ by the OECD’s Financial Action Task Force.

Federated States of Micronesia

Background

10.10 The Federated States of Micronesia comprises over six hundred islands in the Caroline Islands archipelago on the north Pacific Ocean, and is home to nearly 140,000 people. During World War II, the United States occupied the islands, and in 1947, they became part of the US Trust Territory of the Pacific.

10.11 In 1978, four districts (Yap, Chuuk, Pohnpei and Kosrae) came together to create the Federated States of Micronesia. The following year, FSM was granted sovereignty by the United States, and in 1982 concluded a Compact of Free Association with America whereby the US obtained the right to maintain military installations on the islands in exchange for financial assistance to the tune of around \$100 million per annum over 15 years. Micronesians also have the right to live and work in the United States.

10.12 The Compact formally expired in 2001, although a two year period was allowed for negotiations regarding amendments to it. The Pentagon regards Micronesia as an important strategic location in the light of the expansion of Chinese influence in the Pacific in recent years.

10.13 The FSM has a unicameral 14–Senator national congress. One Senator is elected at–large from each of the four states for a four year term, with the other ten Senators elected for two year terms from single-member electorates based on population. The President and Vice–President are elected by the congress from the at–large members, and each must come from a different state. There are no formal political parties.

10.14 Each of the four states has an elected Governor, a Lieutenant Governor and a House of Representatives. The judiciary is independent, and the local police are under the control of civil authorities.

10.15 The launching of an independent newspaper in 1997, and the advent of the internet, has enhanced the public discussion of controversial or politically sensitive issues. Freedom of assembly, of association and of religion is respected, but there are few non-governmental organisations in the country and no unions.

10.16 Literacy rates are nearly 90 per cent. The education system in the FSM is similar to that in the US, with free and compulsory elementary school from age six, followed by public secondary school, with the College of Micronesia–FSM providing 2–3 year programs leading to an associate degree. Private schools run by religious organizations also deliver education to secondary level.

10.17 The economy is dependent on fishing, subsistence agriculture, tourism and US aid. Arable land comprises only 5.71 per cent of the land mass, and the islands have few mineral deposits worth exploiting, except for high grade phosphate. The most promising sectors of economic development are tourism (especially for diving enthusiasts) and fisheries. The estimated GDP real growth rate is barely 2 per cent.

10.18 Developments in tourism are hindered by the remote location of the islands, and a lack of adequate facilities. Fisheries are more lucrative. The FSM has an Exclusive Economic Zone which is one of the most important tuna fishing areas of the Pacific. The FSM collects nearly \$US30 million annually in licence fees from Japanese, South Korean, Taiwanese and the USA fishing fleets.

Current issues

10.19 The amended Compact of Free Association has been signed by the FSM and the US, but requires legislative approval in both countries before it can be implemented from 1 October 2003. A key feature of the new Compact is its emphasis on advancing the economic self-sufficiency of the people of the FSM, and on the continuance of the defence and security relationship. Public sector reform and greater accountability under the Compact are also prominent considerations.

10.20 The US is committed to extending economic assistance for 20 years, but at a diminishing annual rate, leading to a termination of annual mandatory financial assistance in 2023. Beyond that date, the Compact will continue, but financial assistance will be by way of the proceeds of a separate trust fund to which the US, the FSM and others will contribute. The annual decrement in US financial assistance to 2023 will be deposited into the trust fund upon which the FSM will have to rely from 2024 onwards.

10.21 The US General Accounting Office (GAO) has claimed that the new package of assistance will substantially reduce per capita aid, and will not keep pace with inflation over the next 20 years. The GAO also claims that the trust fund will not generate enough income to compensate for the loss of direct federal funding when the arrangements end. Other commentators have argued that weaning the FSM off US aid

could lead to increased migration to Hawaii, and may make it difficult for the FSM to maintain adequate social services.

10.22 The international agency Freedom House has noted that a meeting of FSM's development partners, international organizations and donor countries gave a positive report on FSM's progress in public sector reform and economic stability. Japan has also announced an aid package of \$7 million for road works in the state of Yap.

10.23 The FSM government has tried to attract foreign investment and expand the private sector, including through the development of an off-shore banking industry. However, the FSM became linked to money-laundering activities and was blacklisted by the US and several European countries. As a result, the congress passed laws establishing money laundering as a national crime, and enabling the government to identify, trace, seize and confiscate the proceeds of such crimes.

10.24 There appears to have been a rise in the level of domestic and sexual abuse. Because domestic abuse is commonly regarded as a private, family matter, the state and society more broadly has not engaged seriously with the problem. The number of assaults against women outside the family context has been increasing. Although women are increasingly active in the private sector and in lower level government positions, they remain under-represented in the higher levels.

10.25 Lack of access to safe water has also emerged as a health risk, with diseases such as cholera posing a threat to people's wellbeing.

10.26 Another issue confronting a government keen to consolidate and protect cultural values, and to promote economic development, is the relatively high level of emigration from the FSM. It is likely to be the case that the better educated and more highly skilled people are able to find employment in other countries, including the US.

Fiji

Background

10.27 Fiji is an island group located in Oceania, in the South Pacific Ocean, about two-thirds of the way from Hawaii to New Zealand. The archipelago consists of 322 islands, 110 of which are inhabited. Suva, the capital, is on the island of Viti Levu. There are four administrative divisions and one dependency.² Over half the population is Fijian, with approximately 44 per cent being of Indian descent; the balance comprises other Pacific Islanders, Europeans and Chinese. The main languages spoken are English (the official language), Fijian and Hindustani.

10.28 Fiji became independent in 1970, after nearly a century as a British colony. Democratic rule was interrupted by two military coups in 1987. It was caused by concern over a government perceived as dominated by the Indian community

2 Fiji's administrative divisions: Central, Eastern, Northern, Rotuma (dependency) and Western.

(descendants of contract labourers brought to the islands by the British in the 19th century). A 1990 constitution favoured native Melanesian control of Fiji. This led to heavy Indian emigration. The population loss resulted in economic difficulties, but ensured that Melanesians became the majority.

10.29 Amendments enacted in 1997 made the constitution more equitable. Free and peaceful elections in 1999 resulted in a government led by an Indo-Fijian Prime Minister, the Hon. Mahendra Chaudhry. A coup in May 2000 ushered in a prolonged period of political turmoil. Australia introduced bilateral sanctions (affecting high-level political contacts, trade talks, non-humanitarian aid, defence links and sporting visits) to express concern at the overthrow of democracy and the rule of law. DFAT advised the Committee that these measures were designed to send a clear political message, yet at the same time avoid adding to the economic burden on the people of Fiji.³

10.30 Parliamentary elections held in 2001 provided Fiji with a democratically elected government and gave a mandate to the government of Prime Minister Laisenia Qarase.

10.31 The chief of state is the president and the head of government is the prime minister. Cabinet is appointed by the prime minister from among the members of Parliament and is responsible to Parliament.

10.32 Fiji has a bicameral Parliament consisting of the Senate (34 seats: 24 appointed by the Great Council of Chiefs, nine appointed by the president, and one appointed by the council of Rotuma) and the House of Representatives (71 seats: 23 reserved for ethnic Fijians, 19 reserved for ethnic Indians, three reserved for other ethnic groups, one reserved for the council of Rotuma constituency encompassing the whole of Fiji, and 25 open seats. Members serve five year terms. The legal system is based on the British model and the judiciary is appointed by the president.

10.33 Fiji, endowed with forest, mineral and fish resources, is one of the most developed of the Pacific island economies, though it has a large subsistence sector. Approximately 70 per cent of the labour force is involved in agriculture, including subsistence agriculture. Other industries engaging the labour force include tourism, sugar, clothing, copra, gold, silver, lumber and small cottage industries.

10.34 While sugar remains the major export crop, there have been significant increases in other agricultural commodities as a result of planned diversification. Products such as copra, ginger, dalo and tropical fruits have begun to be exported in quantities to customers in Australia, New Zealand, the United States and Europe. Fiji has also established overseas markets for fish, particularly tuna, and other marine products such as seaweed. The government also plans to harvest and process Fiji's significant mahogany resources.

3 *Submission 33*, p. 9 (Department of Foreign Affairs and Trade (DFAT))

10.35 Fiji's economy has recovered well from its severe downturn in 2000. While the economy contracted by 3.2 per cent in 2000, the Reserve Bank of Fiji forecast growth of 5.1 per cent in 2003. This is down on its initial estimate of 5.7 per cent, reflecting the adverse effects of the Iraq war, the outbreak of severe acute respiratory syndrome (SARS) and, to a lesser extent, the impact of Cyclone Ami in January 2003.

10.36 The migration that accompanied the political instability and economic downturn now appears to have slowed, with emigration in 2002 being 14 per cent lower than in 2001. The high proportion of skilled and professional workers emigrating remains a concern. Business confidence and private investment are slowly picking up.

10.37 Tourism is Fiji's main foreign exchange earner and an important basis of Fiji's economy. It contributes around 20 per cent of GDP. Tourism recovered well from the massive decline in visitor arrivals after May 2000, with 395,000 arrivals in 2002, and a record 426,000 arrivals is forecast for 2003. However, this optimism may be modified somewhat by the impact of the Iraq war and the SARS outbreak. Australia has historically been the biggest source of tourists for Fiji, followed by New Zealand, the United States and Japan.⁴

Economic issues

10.38 The Committee notes that the Reserve Bank of Fiji has managed Fiji's monetary situation well since May 2000. Fiji's exchange rate is stable and its foreign exchange reserves are sound.

10.39 According to the Governor of the Reserve Bank of Fiji and Chairman of the Macroeconomic Policy Committee, Mr Savenaca Narube, Fiji's real GDP growth forecast for this year has been revised downward to 5.1 per cent, compared with the earlier projection of 5.7 per cent issued in November last year. The downward revision reflects the adverse effects of the Iraq war, the outbreak of the Severe Acute Respiratory Syndrome (SARS), and to a lesser extent, damages caused by Cyclone Ami in January.⁵

10.40 Mr Narube also pointed out that despite the negative impact of global developments, Fiji's economic growth rate is still robust at around five per cent, and there are encouraging signs that investment is picking up.

10.41 Austrade advised the Committee that there are relatively few impediments to trade with Fiji relating to quarantine issues which have largely been discussed earlier in the report. Some high tariffs have been placed on goods, which are included in

4 Fiji, CIA World Factbook 2002, updated 19 March 2003 (web address: <http://odci.gov/cia/publications/factbook/print/fj.html>) and Department of Foreign Affairs and Trade website: http://www.dfat.gov.au/geo/fiji/fiji_brief.html, 29 July 2003.

5 Press Release, Reserve Bank of Fiji, 2 May 2003

categories where there is local production. However, representations to Government have resulted in products being given preferential entry where there is no local production.⁶

10.42 Austrade also advised the Committee that the Fiji government has recently passed legislation to provide substantial incentives for investment in the production and distribution of film and television programs, computer software and for e-commerce and related IT activities. Fiji's position on the Cable and Wireless Southern Cross fibre-optic communications cable across the Pacific positions it perfectly as a base for these industries.⁷

10.43 The Committee notes that there are potential issues for Fiji's sugar and textiles and clothing industries when the current preferential treatment comes to an end. The Government of Fiji is aware of these issues and is taking steps to restructure these industries.

10.44 The Leader of the Opposition, the Hon. Mahendra Chaudhry considered fishing industry as a resource that could be sustainably developed to boost the economy.

10.45 A number of Fijian civil society groups met with the Committee during its visit to Suva and the issues of unemployment, poverty and declining wages were raised as issues affecting many Fijians.

10.46 Although the Governor of the Reserve Bank in Fiji advised the Committee that traditionally, remittances had not added much to the national income, most other groups the Committee met with suggested that Fijians were generally supportive of any proposal to gain seasonal access to Australia's labour market.

Political issues

10.47 The Committee acknowledges the progress made by Fiji in the general restoration of democratic processes following the coup in 2000.

10.48 The Committee notes the constitutional issue is being progressed following the decision of the Supreme Court in Fiji regarding the provision of cabinet seats for Opposition members corresponding to the number of seats the Opposition holds.

10.49 During its visit to Fiji, the Government of Fiji's Affirmative Action Policy was raised with the Committee as a matter of concern by a number of sectors of the community. The Committee notes that this issue is impacting on stability within civil society in Fiji and will continue to be an ongoing cause of ethnic tension.

6 *Submission 25*, p. 17 (Austrade)

7 *Submission 25*, p. 15 (Austrade)

Australian development assistance

10.50 Prime Minister Qarase advised the Committee that Fiji was generally happy with the level of bilateral assistance from Australia and that Fijians were grateful for Australia's assistance, particularly in the areas of health and education because these areas directly benefit society. However, the Prime Minister expressed a need for consideration to be given to the delivery time for assistance because this can sometimes be slow.

10.51 Mr Chaudhry highlighted the issue of student visas for Fijians studying in Australia. Current arrangements mean that a student must prove sufficient funds for the duration of the course which is approximately four years, this amount is cumulative rather than ensuring funds are available on a year-to-year basis only. Mr Chaudhry explained that this is enormous burden on students and families of students to ensure sufficient funds. Mr Chaudhry suggested that Australia could reinstate its policy of a requirement for annual funds.

10.52 The World Wildlife Foundation in Fiji also stressed the need to continue to strengthen and develop gender issues in the Pacific.

Resource and disaster management

10.53 The Prime Minister expressed to the Committee the need for disaster response capability, not necessarily capability within Fiji but a capability that was able to respond within 24 hours to emergencies or disaster situations. This need was evident following Cyclone Ami earlier in the year.

Border security and transnational organised crime

10.54 The Minister for Home Affairs and Immigration, the Hon. Jokatani Cokanasiga advised the Committee that an area of concern for policing was the absence of the collection of intelligence in Fiji. The Minister stated that the Government was addressing this issue by strengthening the Special Branch of Police who report directly to the Minister.

10.55 The Government is also conscious of the terrorist threat and is taking positive steps to allocate resources to airport and airline security, border control and legislation in relation to extradition but that Fiji would also benefit from assistance in these areas, particularly in relation to resources for policing. For example, the Minister advised the Committee that Fiji had not seen an increase in drug trafficking but considered Fiji vulnerable given its geography.

10.56 As another means of addressing this issue, the Government has also begun to decentralise the patrol boats which have both surveillance and search and rescue capacity.

10.57 The Minister also indicated the need for an institutional strengthening program for police as current challenges include the need for more and better training

and remuneration conditions. However, the Committee notes the regional police initiative currently being developed.

10.58 The Committee also notes Fiji's contribution to the Regional Assistance Mission to the Solomon Islands.

Kiribati

Background

10.59 Kiribati (pronounced Ki–ru–bas) comprises the Gilbert, Phoenix and Line Islands which straddle the Equator and cover almost 1.5 million square miles of the central South Pacific Ocean, half way between Australia and Hawaii. There are 33 inhabited islands scattered throughout the island groups.

10.60 The islands were originally settled some 2000 years ago from South East Asia. Subsequent invasions came from Tonga and Fiji. The first European to discover the islands was Spanish explorer Pedro Fernandez de Quiros who discovered Butaritari in the Gilbert group in 1606. The Gilbert Islands were so named in the 1820s after a Captain Thomas Gilbert who discovered several more islands in the same chain in 1788.

10.61 Britain annexed the Gilbert Islands in 1916, together with present day Tuvalu, Banaba and several islands in the Line group under the name Gilbert and Ellice Islands Colony. The uninhabited Phoenix Islands were added in 1937. Following the separation of Tuvalu from the colony in 1974, the country became independent in 1979 under its present name of Kiribati.

10.62 A unicameral legislature (Maneba ni Maungatabu) was established under the constitution in 1979. Its 40 members are directly elected for terms of four years. There is also one appointed and one ex–officio member. The President serves as both head of state and head of the government and is elected by a nationwide ballot from among three or four candidates selected by the parliament. Local island councils serve all inhabited islands.

10.63 Kirabati is one of the poorest countries in the Pacific region due at least in part to its lack of natural resources. Other contributing factors to a lack of economic development include the remoteness of the islands and their dispersal over a very large area of the Pacific. Agriculture is also generally limited to subsistence levels of production. Kiribati relies almost exclusively on foreign aid (from Japan, Australia, New Zealand and the UK) for its development budget.

10.64 The primary source of revenue for Kiribati is the issue of fishing licenses to foreign fishing fleets (Japan, South Korea, Taiwan and US) which fish the 200nm Kirabati exclusive economic zone for skipjack and yellowfin tuna. Copra, seaweed and live fish are the main exports while tourism accounts for more than 20 per cent of GDP.

10.65 Due to its favorable position on the Equator, Kirabati has negotiated a lease with the Chinese to establish a satellite-monitoring base on South Tarawa. In May 2000, an agreement was signed with Japan's National Space Development Agency to begin a multi-million dollar spaceport project on one of the islands. The agreement gives Japan seven year lease free access, allowing unmanned space craft, launched from Japan, to land on the island.

Current issues

10.66 The main issues confronting Kirabati are the overcrowding of the main island of Tarawa; heavy pollution of the lagoon to the South of Tarawa due to traditional practices such as lagoon latrines and open pit dumping; risk of pollution to ground water and the threat of rising sea levels.

Marshall Islands

Background

10.67 As with the Federated States of Micronesia, the Marshall Islands—a chain of coral atolls in the central Pacific—became a Trust Territory of the United States in 1947, and became a sovereign country in 1979.

10.68 Between 1946 and 1962, the atolls of Bikini and Enewetak were testing grounds for America's nuclear weapons program. Despite clean-up and rehabilitation operations, those atolls are still too contaminated to allow the original inhabitants to return. Former inhabitants of Bikini Island recently were awarded \$553 million in compensation for nuclear test clean up costs and loss of land

10.69 In 1983, the Marshall Islands signed a Compact of Free Association with the US. Under this Compact, the US controls defence and foreign affairs, and has missile testing rights on the Kwajalein Atoll. An aid package from the US of around \$65 million constitutes 55 per cent of the Marshall Islands' national budget. Nearly 74,000 people live on the Marshall Islands, with around three thousand American defence personnel living at the base on Kewajalein.

10.70 Compact money initially led to a rapid expansion of the service sector, but many government institutions failed and there was little economic development. In 1995, the government introduced an austerity program designed by the Asian Development Bank to reduce the budget and the size of the civil service.

10.71 The 1979 constitution provides for a bicameral parliament. The lower house of representatives (Nitijela) has 33 members, each representing a municipality, and elected for four year terms. The Nitijela elects the President who is both head of state and head of government. The upper house (Iroji) comprises 12 traditional leaders who offer advice on customary law.

10.72 During the middle–late 1990s, there was some political instability. Since January 2000, the government has been led by President Kessai Hesa Note who survived a no confidence motion in January 2001.

10.73 The judiciary is independent, and its independence has been strengthened in recent years by specific legislation inhibiting government intervention. The police have regard to legal and civil rights protections in performing their duties.

10.74 The government generally respects freedom of assembly and of speech, but the press will sometimes practice self–censorship on sensitive political issues.

10.75 The economy is heavily dependent on American aid, with small scale industry limited to handicrafts, tuna processing and copra. Subsistence agriculture occurs on small farms, with coconuts and breadfruit being the most important commercial crops. Tourism provides some foreign exchange, but employs less than ten per cent of the labor force. Growth in GDP has averaged only one per cent for the past decade. The Islands operate a flag of convenience register of 270 merchant ships from a range of countries.

10.76 Literacy rates are quite high—over 93 per cent—and English is widely spoken as a second language. The population is predominantly Christian (mostly Protestant), and the average life expectancy is 66 years.

Current issues

10.77 The renegotiation of financial assistance under the Compact of Free Association with the US has been a rather drawn out process. During that time, yearly assistance was raised to \$US37 million a year. As with Micronesia, the new agreement will see direct US support diminish over the next 20 years, and its replacement by a trust fund. Claims have already been made that the new arrangements will be inadequate.

10.78 The Marshall Islands are struggling with the consequences of drought, a drop in construction, the decline in tourism and foreign investment due to the Asian financial crisis, and less income from the renewal of fishing licences. Fisheries, however, remain the potentially most lucrative resource.

10.79 Along with other Pacific countries, the Marshall Islands were implicated in money-laundering activities, and were blacklisted, notwithstanding the government's rejection of the claim. The government has introduced more stringent measures to monitor off–shore banking activities. In particular, new laws were introduced to combat financing involving terrorist groups

10.80 Like other coral island nations, the Marshalls have inadequate supplies of potable water. Discharge from fishing vessels and domestic waste is also polluting adjacent waters, especially the Majuro lagoon. Concerns are also being voiced about global warming and rising sea levels.

10.81 Traditional rank and property inheritance is matrilineal, and women hold a social status equal to men. However, women are under-represented in government, and tend to hold low-wage jobs in the private sector. The Freedom House organisation reports an increased incidence of domestic violence, noting that traditional culture dissuades many victims of domestic violence from reporting the crime or prosecuting spouses in the court system.

Nauru

Background

10.82 Nauru is an island situated in Oceania, south of the Marshall Islands. The population of approximately 12,330 is 60 per cent Nauruan, 26 per cent Pacific Islanders and the balance is Chinese and European. Christianity is the dominant religion and Nauruan is the official language, although English is widely used and understood for government and commercial purposes.

10.83 Nauru is one of the three ‘rock phosphate’ islands of the Pacific, the others being Kiribati and French Polynesia. The island was incorporated into Germany’s Marshall Island protectorate in 1888. Its phosphate deposits began to be mined early in the 20th century by a German–British consortium; the island was occupied by Australian forces in World War I. In 1919, after Germany’s defeat, the island was placed under the joint administration of Great Britain, Australia and New Zealand.

10.84 At the end of World War II, Nauru was made a United Nations Trust Territory under Australian administration. It achieved independence in 1968, took control of its phosphate industry in 1970 and joined the United Nations in 1999.

10.85 Nauru is the smallest independent republic in the world. It has a unicameral parliament consisting of 18 seats; members are elected by popular vote to serve three year terms and there are 14 administrative districts.⁸ After each election, the parliament votes on a president who also plays the role of Head of Government. The President then appoints a cabinet of four or five ministers from within the parliament.

10.86 Nauru has one of the highest GDP/per capita amongst independent Pacific states. But this prosperity has come at a price: after decades of phosphate mining 90 per cent of the island now needs rehabilitating.

10.87 While some fruit and vegetables are grown around Nauru’s coastal fringes and near the Buada lagoon, agriculture is limited because of lack of usable land and the population’s reliance on imported foodstuffs. Phosphate mining is still the main economic resource despite the cost of extracting the last remaining deposits. The life expectancy of the industry is estimated at five to ten years. Nauru exports most of its phosphate to Australia, New Zealand, Japan and South Korea.

8 Administrative districts: Aiwo, Anabar, Anetan, Anibare, Baiti, Boe, Buada, Denigomodu, Ewa, Ijuw, Meneng, Nibok, Uaboe and Yaren.

10.88 In 1993 the Compact of Settlement ended Nauru's litigation against Australia over rehabilitation of land mined by Australian companies before independence. Under the conditions of the settlement, Nauru has obtained a cash payment of \$A57 million and will receive \$A2.5 million annually for twenty years. This money is to be used on development projects.

10.89 Nauru has two critical environmental issues to face in the near future. It has limited fresh water resources—rainwater is collected from rooftops and stored in tanks, but is mostly dependent on an aging desalination plant. Also, intensive phosphate mining during the past 90 years has left the central 90 per cent of Nauru a wasteland and threatens limited remaining land resources.

Current issues

10.90 The Department of Foreign Affairs and Trade, in its submission to the inquiry stated that:

Nauru is a single resource economy. Income from phosphate mining created significant revenues in the past, making Nauru one of the wealthiest countries in the Pacific. However, its ability to generate income from this source has seriously diminished over recent years. With dwindling resource supplies, dilapidated infrastructure and a downturn in phosphate prices, combined with poor fiscal and investment portfolio management, Nauru faces a difficult future.⁹

10.91 In 2001, Nauru accepted a request from Australia for it to host asylum seekers to be processed there under the 'Pacific Strategy'. The setting up and the maintenance of the detention facilities on Nauru have been entirely funded by Australia, which has also provided \$A10 million worth of infrastructure support to the Nauru government. Due to dire financial difficulties experienced by Nauru, Australia has provided an extra \$A7 million emergency aid in May 2002. The impact of the 'Pacific Strategy' on Nauru has been considered in Chapter Six.

10.92 While phosphates have given Nauruans one of the highest per capita incomes in the Third World, few other resources exist, with most necessities, including fresh water, being imported from Australia. The rehabilitation of mined land and the replacement of income from phosphates are serious long-term problems. In anticipation of the exhaustion of Nauru's phosphate deposits, substantial amounts of phosphate income have been invested in trust funds to help cushion the transition and to provide for Nauru's economic future.

10.93 The government has been borrowing heavily from the trusts to finance fiscal deficits. To cut costs the government has called for a freeze on wages, a reduction of over-staffed public service departments, privatisation of numerous government agencies, and closure of some overseas consulates.

9 *Submission 33*, p. 20 (Department of Foreign Affairs and Trade)

10.94 In recent years, Nauru has encouraged the registration of offshore banks and corporations. Tens of billions of dollars have been channeled through their accounts. Few comprehensive statistics on the Nauru economy exist, with estimates of Nauru's per capita GDP varying widely.¹⁰ The Committee is seriously concerned about these activities and again notes that Nauru is listed as a 'non-cooperative country or territory' by the OECD's Financial Action Task Force.

New Caledonia

Background

10.95 New Caledonia comprises a group of islands in the South Pacific, the largest being the island of Main Terre. The island is extensively forested, and is divided north-south by a central mountain chain.

10.96 Discovered by Captain Cook in 1774, New Caledonia saw the first British missionaries arrive in the 1840s, but in 1853 France took possession of the island to counteract growing British influence in the region. The discovery of nickel in 1863 accelerated the process of colonization, and from 1864 to 1897, New Caledonia was a penal colony, receiving 40,000 prisoners.

10.97 After World War II, when New Caledonia was an important American military base, indigenous Kanaks began agitating for independence, bringing them into conflict with the largely anti-independence non-indigenous population. Bloody clashes in 1984 and again in 1988 resulted in both sides agreeing to the Matignon Accords. This agreement set out a 10-year transition with a vote on the future of New Caledonia scheduled before the end of 1998.

10.98 By the mid-1990s, the major pro- and anti-independence parties had decided that the scheduled referendum should be replaced by a negotiated settlement. A second agreement—Noumea Accord—was signed in May 1998. This deferred the proposed referendum on self-determination and independence until at least 2013, and created new political institutions that have 'changed the terrain for decolonization in significant ways.'¹¹

10.99 Under the new agreement, three Provinces (Northern, Southern and Loyalty Islands) were created, each with its own Provincial Assembly of 22, 40 and 14 members respectively, elected for five year terms. A unicameral Territorial Congress comprises 54 members elected from the membership of the Provincial Assemblies. New Caledonia also elects one seat to the French Senate.

10 Nauru, CIA World Factbook 2002, updated 19 March 2003 (web address: <http://odci.gov/cia/publications/factbook/print/nr.html>) and Charting the Pacific—Places website: <http://www.abc.net.au/ra/pacific/places/country/nauru.htm>

11 Maclellan, N, *The Noumea Accord and Decolonisation in New Caledonia* The Journal of Pacific History, vol. 34, no. 3, 1999.

10.100 A government executive of 11 members replaces the French High Commissioner, and a 16-member Senate of customary chiefs must be consulted on issues that affect the Kanak identity.

10.101 A new category of ‘New Caledonian citizens’ was established, limiting the range of inhabitants who can vote in Assembly and Congress elections—although these ‘new’ citizens retain their French nationality for the purpose of voting for the French National Assembly and the European Parliament.

10.102 The economy of New Caledonia is significantly impacted upon by the level of world demand for nickel, which is the principal source of the country’s export earnings. Depressed nickel prices during the 1990s cast a shadow over the economy, which began to lift with a jump in nickel prices in 1999–2000, prompting a boost in the country’s nickel mining capacity.

10.103 Whilst mining is the main sector of industry and development, there are also manufacturing/transformation industries (paper products, pasta, solar water heaters, car batteries, ice cream and yoghurt, work clothing, detergents etc).

10.104 In 2001, New Caledonia imported A\$230m worth of products from Australia. As a result of the Noumea Accords, the territory is increasingly looking to become more integrated into the South Pacific region.

10.105 Only a tiny proportion of the land is arable, and food accounts for about 20 per cent of the country’s imports. France provides substantial financial support, mainly to cover expenditure on health, education and the public service. Tourism is also a significant factor in New Caledonia’s economic wellbeing, and is vulnerable to the usual international factors—most recently the SARS epidemic and concerns about terrorism.

Current issues

10.106 Simmering differences between pro- and anti-independence groups are the main source of political conflict, which still results in occasional violent clashes. Ethnic differences also contribute to overall tensions, particularly where issues of land and housing are concerned.

10.107 Economic differences between groups and geographical areas, not only between islands but within the main island itself, exacerbate ethnic tensions. The presence of an ‘up market’ tourist clientele reinforces the obvious economic disparities.

10.108 Forest fires and erosion caused by mining activities are two prominent issues of environmental concern.

10.109 Australia delivers 16 per cent of New Caledonia’s imports, and Austrade maintains an office in Noumea. While New Caledonia is relatively close to Australia, some groups have argued that business relationships do not seem to have developed to the level that might have been expected. According to the Australia Pacific Islands

Business Council, ‘for many Australian businesses a combination of language and institutional barriers have tended to intimidate them from approaching the market.’¹²

10.110 There are, however, some promising signs:

The Australia Pacific Islands Business Council was delighted that the President of the Council was in March invited to accompany the Australian Trade Minister, Mr Vaile, on the first visit to New Caledonia by an Australian Trade Minister

The Council believes that the signing by Mr Vaile of the Trade and Economic Relations Arrangement with the New Caledonian Government marks a watershed in the bilateral business relationship. In a follow-up visit to New Caledonia in April, the Council found continuing interest there in utilising Australia as a source of supply for goods and services.

The Council will be giving particular focus to the development of strategic relationships in New Caledonia which will enable it to support the interests of Australian companies looking to do business there.¹³

10.111 Austrade’s submission to the Committee indicates that commercial relationships between Australia and New Caledonia are already quite robust, and that the outlook for greater business engagement is promising.

Since the signing of the 1998 Noumea Accords, between the French Government and local authorities, a dynamic business and commercial relationship has developed between Australia and New Caledonia, with considerable prospects for further growth. A number of Australian companies are already active in the goods and services market... There is potential for Australia to expand its market share if New Caledonia’s import restriction system continues to liberalise. Australia’s proximity to New Caledonia, frequent sea and air freight services, Australian industry capability and more competitive sea freight rates from Australia than from Europe, represent competitive advantages for Australian suppliers. Australia is perceived as a reliable supplier, with a good reputation.¹⁴

10.112 As New Caledonia becomes more regionally oriented, local students will look towards Australia, particularly for training in areas such as tourism, hotel management, aquaculture and agriculture, all areas of climatic, geographic or professional similarities with Australia. However, there does remain an issue with recognition of Australian professional qualifications in some sectors, for example architects and teachers.¹⁵

12 *Submission 15* (Australia Pacific Islands Business Councils)

13 *Submission 15* (Australia Pacific Islands Business Councils)

14 *Submission 25*, pp. 21–22 (Austrade)

15 *Submission 25*, p. 23 (Austrade)

Niue

Background

10.113 Niue, located in the South Pacific Ocean approximately 1,200km due North of Fiji is the world's largest raised coral island with an area of 260 sq km.

10.114 Niue's first settlers are believed to have come to the island from Samoa and Tonga over 1,000 years ago. Natives of the northern part of the island speak a Polynesian dialect which differs from the more Tongan/Samoan language practiced by the rest of the population. Captain Cook landed on the island in 1774 and named it Savage Island, after having received a somewhat less than friendly reception. The first missionaries arrived, (again from the London Missionary Society) in 1830. The islands population had become almost exclusively Christian by the mid 1850s.

10.115 The British proclaimed sovereignty over Niue in 1900 and in the following year it was formally annexed to New Zealand as part of the Cook Islands. The first Niuean Assembly was established in 1960 and in 1974 Niue became a separate self-governing territory in free association with New Zealand. In a similar manner to the Cook Islands, Niue is fully responsible for its internal affairs whilst New Zealand retains responsibility for external affairs and defence. Both by right and in practice, New Zealand's responsibilities are exercised only at the request of the Government of Niue.

10.116 Niue's unicameral Assembly consists of 20 seats. Six of these are elected from a common role by popular vote while there are 14 village representatives. Members of the parliament serve for terms of three years. The Assembly elects a Premier who in turn appoints three ministers. Each of the 14 main villages elects its own three to five member council, again members serve for a three year term.

10.117 The agricultural sector on Niue consists primarily of subsistence gardening although there are some cash crops for export such as copra, passion fruit, pawpaw and limes. Industry consists mainly of small processing factories for limes, passion fruit, honey and coconut cream. The majority of paid work exists in government service, the Niue Development Board or the small industries mentioned above.

10.118 Government expenditure regularly exceeds revenues, the shortfall of which is made up by the New Zealand government. In 1999 export earnings were \$137,000 while imports cost \$2.38 million. In 2002 Niue received \$2.6 million from New Zealand. Much of this money is used to pay government employees. The sale of postage stamps to foreign collectors is also an important source of revenue.

Current issues

10.119 The island has in recent years suffered a serious loss of population due largely to migration to New Zealand. Three times as many Niueans live in New Zealand as on Niue itself. In 1966 the population was in excess of 5,000 and is at present fewer than 1,500.

10.120 Efforts to increase GDP include the promotion of tourism and a financial services industry. The Niuean government announced in February 2002 that it would be shutting down the islands offshore banking industry. (Niue is an alleged centre for money laundering.)

10.121 A report in the Sydney Morning Herald of 30 June 2003 noted that Niue was soon to introduce the world's first nationwide wireless internet service. The funds required for this investment have come chiefly from the sale of the Niuean domain name '.nu' to thousands of companies worldwide. Each of these companies has paid US\$30.00 (A\$45) for the right to use the suffix on their web addresses.

Commonwealth of the Northern Mariana Islands

Background

10.122 The Commonwealth of the Northern Marian Islands (CNMI) consists of three main islands—Saipan, Tinian and Rota—in a chain of smaller islands that extends over 600 kilometres and lies about three-quarters of the way from Hawaii to the Philippines.

10.123 The islands of CNMI were once part of the US Trust Territory of the Pacific, created by the United Nations after the end of World War II. Following a local referendum in 1975, the Northern Marianas became, in 1978, a self-governing American territory. After extensive negotiations, the Commonwealth of the Northern Mariana Islands was officially established in 1986.

10.124 The US President is the CNMI's head of state, with the CNMI executive government being a governor and lieutenant governor elected on the same ticket by popular vote for four year terms. Saipan Island is the recognized seat of government.

10.125 The legislature is bicameral. The House of Representatives has 18 members, elected by popular vote to serve two year terms. The upper house, the Senate, has 9 seats, and Senators are elected by popular vote to serve staggered four year terms. There are two main political parties—the Democratic Party and the Republican Party.

10.126 The judiciary operates across three levels—a Commonwealth Supreme Court, a Superior Court, and a federal District Court. CNMI inhabitants are subject to most US Federal laws. However, the Commonwealth is in charge of its own immigration laws, and US minimum wages laws do not apply.

10.127 Since 1986, there has been an aggressive immigration policy to recruit temporary workers, largely from China and the Philippines, to work in CNMI's burgeoning garment manufacturing, services and tourism industries. The growth in the foreign-born population in recent decades has dominated the demographics of the 78,000 Commonwealth inhabitants. Foreigners now greatly outnumber the native-born residents.

10.128 The US provides substantial economic assistance to the CNMI, but the rate of funding has declined as locally generated government revenues have grown. However, it has been reported that government revenues have dropped in recent times, and strong measures are being taken to reduce expenditure.

10.129 The tourism industry is important, employs about half the workforce, and accounts for about 25 per cent of GDP. The agricultural sector is made up of small cattle ranches and farms producing coconuts, breadfruit, tomatoes and melons. Garment production is easily the most significant industry, and is a major export—especially to the USA which exempts the products from quotas and duty.

10.130 American culture has had a strong impact on the CNMI, especially on Saipan, largely through shops filled with American products, and a significant inflow of American media—fifty cable TV channels, American style radio and popular magazines. There is also frequent movement of people to and from the United States.

10.131 Literacy levels run at 97 per cent. A Public School System comprising 15 campuses teaches children from 6 to 18 years of age. Reports suggest that, while there are many talented and dedicated teachers in the system, the quality of education is highly variable owing to the relatively small education budget, with schools being poorly maintained and construction projects well behind schedule.

Current issues

10.132 As with many Pacific countries, environmental concerns are prominent. Groundwater on Saipan is becoming increasingly contaminated, posing increased health risks. Land fill is also proving problematic. Development of the islands has put pressure on the protection of endangered species.

10.133 There has been a gradual increase in crime rates, often linked to drugs.

10.134 Government revenues have been declining somewhat, largely as a result of reduced tourism. Recent international events—including September 11 and the SARS outbreak—have had a dramatic effect on tourism, compounding the effects of the 1997 Asian financial crisis which had led to tourists spending significantly less in the local economy over the last several years.

Palau

Background

10.135 The Republic of Palau is an archipelago of 300 plus islands at the western end of the Caroline Islands, and is home to around 19,000 people—almost one third of whom are Asian in background. Palau opted for independence in 1978 rather than join the Federated States of Micronesia, and in 1979 adopted a constitution requiring 75 per cent approval at a referendum before nuclear-related activities could occur on its territory.

10.136 This in part contributed to the 13 year delay in ratifying a Compact of Free Association with the US, along with disagreements over the level of US aid and the requisitioning of land for US military forces. Only after a change to Palau's constitution in 1992 did the Compact proceed with a 64 per cent approval by voters. The Compact began on 1 October 1994, and provides Palau with up to \$700 million in US aid over 15 years in return for furnishing military facilities. This constitutes around 65 per cent of total revenue.

10.137 Life in Palau was disrupted in 1996 by the collapse of the Koror–Babeldaob Bridge (KB bridge), the country's main artery linking the southernmost point of the main Babeldaob Island with Koror Island, where most of the people lived. The collapse cut off not only traffic, but also main water pipes, power and telecommunication lines and TV cables, causing serious damage to the country's society and economy. A temporary floating bridge was constructed but the durability of its design was very limited with a life span of only five years.

10.138 The government requested grant aid from the Japanese government, which constructed the PC Extradozed bridge (432 m in length)—the second longest bridge in its length of central span for this style of bridge after the Kiso River Bridge and the Ibi River Bridge in Japan. The opening ceremony was held locally on January 11, 2001 and the bridge given the name 'Japan–Palau Friendship Bridge'.

10.139 Palau has a bicameral parliament, along with a 16 member Council of Chiefs that advises the government on tribal laws and customs. The chiefs wield considerable power, leading to frequent tensions with political leaders. There are proposals afoot to shift to a unicameral legislature on the grounds of economic and bureaucratic efficiencies.

10.140 The House of Representatives comprises 16 members, representing each of the 16 states, and a Senate comprising 14 Senators elected on a geographic basis. The President is directly elected by the people for a four year term, and the Vice President is elected on a separate ticket. In 2001, the first woman was elected to the post of Vice President (Ms Sandra Pierantozzi).

10.141 The judiciary is independent, assisted by an independent special prosecutor and an independent public defender system. Local police are under direct civilian control, and freedom of speech, of religion and of the press is supported. Palau is predominantly a Roman Catholic country, but around one third of Palauans observe the indigenous Modeknegei religion.

10.142 Around one fifth of the land is arable, but agriculture is largely on a subsistence basis, with the main commercial products being sweet potatoes, tapioca, copra and coconuts. Tourism and fishing make up the bulk of economic activity, along with a significant public sector workforce, as well as some garment making and construction work. Palau also has reasonable forest resources, some gold deposits and deposits of deep seabed minerals.

10.143 The population enjoys one of the highest per capita incomes in the Pacific. Literacy rates are 92 per cent, and English is the official language.¹⁶

Current issues

10.144 Foreign nationals make up about one third of the population, and nearly half the labour force. There are some tensions between the indigenous Palauans who are mainly Roman Catholic, and the immigrants who are predominantly Muslim.

10.145 Women have a relatively high social status, with inheritance of property and traditional rank being matrilineal. However, domestic violence remains a problem, and limited employment opportunities for women have resulted in numbers of Palauan women enlisting in the US military.

10.146 In 1999, Palau was accused of involvement in money laundering. Palau's government responded by establishing a banking commission, and following a favourable report from the US State Department, several pieces of legislation were recently introduced to ensure closer supervision of financial transactions.

10.147 Palau is renowned as a destination for diving enthusiasts. The expansion of air travel in the Pacific has bolstered tourism, which along with infrastructure financing by foreign investors, has considerably enhanced Palau's prosperity.

10.148 The main difficulties confronting Palau are environmental. There are inadequate facilities for solid waste disposal, and the marine ecosystem is threatened by sand and coral dredging. Overfishing and illegal fishing practices are also prominent matters of concern.

Papua New Guinea

Background

10.149 Papua New Guinea is located in South Eastern Asia. It consists of the eastern half of the island of New Guinea and surrounding six hundred islands, between the Coral Sea and the South Pacific Ocean, south of Indonesia. The capital, Port Moresby, is situated on the mainland of Papua New Guinea. There are 20 administrative divisions called provinces.¹⁷

10.150 The eastern half of the island of New Guinea, the second largest island in the world, was divided between Germany (north) and the United Kingdom (south) in

16 Information has been compiled from a range of sources—factsheets, websites and press articles—especially those of Freedom House, the US Central Intelligence Agency and the Australian Broadcasting Corporation.

17 Papua New Guinea's administrative divisions: Bougainville, Central, Chimbu, Eastern Highlands, East New Britain, East Sepik, Enga, Gulf, Madang, Manus, Milne Bay, Morobe, National Capital, New Ireland, Northern, Sandaun, Southern Highlands, Western, Western Highlands and West New Britain.

1885. The latter area was transferred to Australia in 1902. Australia occupied the northern portion during World War I and continued to administer the combined areas until independence in 1975.

10.151 Papua New Guinea has a population of approximately 5.3 million, most of whom are Melanesian, but some are Micronesian or Polynesian. There are over eight hundred language groups, reflecting the diverse origins of the people. English, Tok Pisin, and Motu (most commonly used), are the official languages. The population is predominantly Christian, with approximately 34 per cent adhering to indigenous beliefs.

10.152 Papua New Guinea's Head of State is HM Queen Elizabeth II, represented by the Governor General, Sir Silas Atopare. The system of government is a responsible parliamentary democracy. The national parliament is a single chamber legislature elected for five years by universal suffrage in single constituency open or provincial elections. As no one party has ever achieved an absolute majority in parliament and party alliances are volatile, loss of government by a vote of no confidence has been a characteristic of PNG politics. The National Executive Council (Cabinet) is appointed by the Governor General and comprises the Prime Minister and Ministers. The independent judicial system comprises the Supreme Court and National Court, and local and village courts.

10.153 In 1997, a nine year secessionist revolt ended on the island of Bougainville, after claiming 20,000 lives.¹⁸ The PNG and Bougainville representatives reached agreement to end the lengthy secessionist conflict on Bougainville and to establish a Truce Monitoring Group (which later became the Australia-led Peace Monitoring Group (PMG)). In August 1991, The Bougainville Peace Agreement was signed. It provided the framework for disarmament and for an autonomous Bougainville Government.

10.154 The spectrum of PNG society ranges from traditional village-based life, dependent on subsistence and small cash-crop agriculture, to modern urban life in the main cities of Port Moresby, Lae, Wewak, Goroka, Mt Hagen and Rabaul.

10.155 The diversity in Papua New Guinea's society means that the economy is dual in nature. The 'modern' formal economy provides a rather narrow employment base, consisting of workers engaged in mineral production, a relatively small manufacturing sector, public sector employees and service industries. Over 85 per cent of the population depends upon agriculture, forestry or fishing for their livelihood. Migration of rural people to major city centres in the past decade has contributed to urban unemployment and attendant social problems.

10.156 Over the past two decades, Papua New Guinea's economic growth has been characterised by a heavy reliance on commodity exports from the mining and petroleum sectors. These sectors account for around 60 per cent of Papua New

18 See also Chapter Seven.

Guinea's export revenue, compared to agriculture at about 25 per cent. The monitorised part of the agriculture and forestry sectors is generally geared towards servicing overseas markets, with coffee, palm oil, cocoa, copra and unprocessed logs the most important exports.

10.157 The PNG Government faces major economic challenges, particularly to control budget deficit. The Government's 2003 budget is a serious attempt to establish a sustainable medium-term fiscal framework. The IMF/World Bank package introduced in March 2000 has encouraged economic stability.¹⁹

Economic issues

10.158 As noted above, PNG faces an uncertain and difficult economic outlook.²⁰ The PNG economy is in structural decline and also faces a number of demographic and social challenges over the next decade, including:

- high population growth (especially in the Highlands);
- in rural areas, where over 80 percent of the population live, living standards are declining, employment opportunities are limited and services and infrastructure are decaying;
- rising rates of HIV/AIDS infection; and
- exposure to western lifestyles, through education and the media, are increasing the expectations of the growing youth population beyond the opportunities presented by the economy. Increasingly, youth will not be satisfied by village life, leading to the already serious law and order situation deteriorating further, especially in the urban centres.

10.159 On coming to office, the Somare Government set out three major goals:

1. to improve governance;
2. facilitate rural development and poverty reduction through empowerment of its people and through improving service delivery (creating an efficient, effective, affordable public service); and
3. to improve economic performance through export led recovery.²¹

10.160 In evidence to the Committee, the Chief Secretary of the PNG Department of Prime Minister and National Executive Council assured the Committee that, whilst PNG does have its problems, it is not on the brink of collapse, nor is it a failed state:

19 Papua New Guinea, CIA World Factbook 2002, updated 19 March 2003 (web address: <http://odci.gov/cia/publications/factbook/print/pp.html>) and Department of Foreign Affairs and Trade background paper, May 2003.

20 For detailed discussion, see *Committee Hansard*, 25 October 2002, pp. 80–92, 100–116 (DFAT, AusAID)

21 *Submission* 63, p. 7 (PNG Department of Prime Minister and National Executive Council)

While it is clear that this young nation faces some significant problems, these problems are neither as serious nor as intractable as recent speculation has made them out to be. It is not a failing state. On the contrary, it is vibrant colourful democracy in a young, developing country. Not surprisingly, it suffers from many of the problems associated with development. What country in the developing world has not faced these problems?²²

10.161 The Chief Secretary explained that one of the issues PNG has to manage is having a narrow tax base which, despite the introduction of a value added tax several years ago, the prospects of additional internal revenue raising are very limited.²³ In addition, the Chief Secretary acknowledged the need for continuing deficit funding but stated that theoretical advice to date had not addressed the reality that PNG's administrative infrastructure (and the fact that a large proportion of the population are villagers and subsistence farmers) does not offer the scope that exists in a developed economy.²⁴

10.162 However, the Chief Secretary advised the Committee that the Somare Government recognised the seriousness of PNG's fiscal situation and therefore, the 2003 budget set realistic objectives which, even in the current international climate of uncertainty, the Government is confident will be achieved. At the time of meeting with the Committee, the Chief Secretary advised the Committee that the kina had stabilised and the deficit had been kept within manageable limits. The Chief Secretary stated that the deficit will slowly be reduced in a realistic and sustainable manner in future years.²⁵

10.163 Given the seriousness of PNG's fiscal situation, there was some suggestion that the Australian Government should give consideration to re-scheduling PNG's loan repayments. However, the Treasury advised the Committee that the Australian Government has indicated that, while it would not rule out further consideration of the issue, it is not in favour of a re-scheduling of the loan repayments because of concern for the possible counter productive effects of a re-scheduling such as the possible undermining of international investor confidence in the PNG economy.²⁶

10.164 The Department of Prime Minister and National Executive Council provided a detailed submission to the inquiry and explained how the Government of PNG was addressing the following:

- improving governance;

22 *Submission 63*, p. 3 (PNG Department of Prime Minister and National Executive Council)

23 In 2002, the VAT was successfully challenged in the courts and retrospective legislation was necessary to rectify the legal deficiencies.

24 *Submission 63*, pp. 5–6 (PNG Department of Prime Minister and National Executive Council)

25 *Submission 63*, p. 7 (PNG Department of Prime Minister and National Executive Council)

26 *Submission 86*, p. 3 (The Treasury)

- improving personnel management;
- creating an affordable level of government;
- assisting agencies to improve financial management and financial control;
- improving inter-governmental financial relationships;
- improving infrastructure;
- reducing law and order problems;
- implementing the Government's performance management system;
- improving PNG's response to HIV/AIDS; and
- improving budgeting and planning.

10.165 Many of these issues have been considered in the body of the report.

10.166 There is also a need to improve the environment for foreign investment. During the Committee's visit to Port Moresby, the Hon Sir Moi Avei, Minister for Petroleum and Energy advised the Committee that these issues were being addressed in part, by reducing the tax for foreign investors from approximately 48 per cent to 30 per cent. However, both the Prime Minister and the Chief Secretary to the Committee considered that recent negative portrayals of PNG in the media had impacted on investor confidence in PNG.

10.167 Austrade identified a number of direct impediments to trade with PNG, including:

- At times, unnecessary or bureaucratic delays in customs or quarantine clearance;
- insufficient cold storage at points of entry;
- threat of direct or contrived theft of goods in transit;
- need for expensive or difficult terms of payment to cover buyer risk; and
- although adhering to WTO schedules, reluctance to advance tariff reduction.

10.168 However, the Chief Secretary advised the Committee that many investors have been deterred from investing in Papua New Guinea because of 'business red tape'. Therefore, the Government was planning to establish a taskforce within the Prime Minister's Department with representation from the private sector and peak organisations to investigate business impediments and red tape and to make recommendations on how best to remove them.²⁷

10.169 Indirect or market conditions that could impede trade include:

- buyer reluctance to engage new suppliers;
- near monopoly supply positions in several sectors;

27 *Submission 63*, p. 18 (PNG Department of Prime Minister and National Executive Council)

- poor infrastructure and transportation; and
- insurance overheads, including export insurance costs, due to the market grading or political and social risk of the market.²⁸

10.170 Another issue that was raised for PNG was the need for privatisation as one element of structural reform.²⁹ The Chief Secretary advised the Committee that the PNG Government has completed its review of the previous Government's privatisation program and found that further asset sales were not necessarily in PNG's interest. The Government has determined that, while it can see a case for the full privatisation of non-core state assets in some areas, core assets in the telecommunication, electricity and transport sectors should only be partially privatised. This will involve significant private sector shareholding through public/private partnerships but not control because without effective competition in these areas, this would not be in the interest of PNG.³⁰

10.171 Mr Peter Vincent, Chief Executive Officer of the Tourism Promotion Authority in PNG advised the Committee of the potential for the development of tourism in PNG. However, Mr Vincent stated that to date, the industry has not had the support of the government. Therefore, despite some development assistance in the area, if government barriers remain, the industry will not develop to its full potential.

10.172 As outlined in Chapter Three, a number of Papua New Guineans support labour mobility with Australia.

The Highlands Gas Project

10.173 Although it is known there are considerable reserves of minerals and metals to be exploited, exploration investment has come to a virtual standstill. In addition, over-reliance on non-renewable resource exploitation will become a vulnerability after 2004 as reserves decrease, and projects wind-up.

10.174 However, of major importance to the economy of PNG is the proposed gas pipeline between the Highlands of PNG and Queensland. The project involves sourcing gas from the Hides and Kutubu gas fields in the Southern Highlands of Papua New Guinea (PNG) and the development of gas processing infrastructure in PNG. The construction of a pipeline south to a liquids and LPG production facility in PNG, with a 3,500 km dry gas pipeline to transport gas across the Torres Strait to markets in Queensland (including Townsville, Gladstone and Brisbane) and South East Australia will complete the project. The total capital investment is estimated to be approximately US\$3 billion, of which some US\$1.9 billion will be expended in

28 *Submission 25*, p. 12 (Austrade). See also, *Submission 86*, p. 9 (The Treasury)

29 See for example, *Committee Hansard*, 18 October 2002, pp. 12–14, 32–33.

30 *Submission 63*, p.13 (PNG Department of Prime Minister and National Executive Council)

Australia.³¹ To progress the project, foundation commercial gas sales must be secured, and the project proponents must sign a Gas Agreement with the PNG Government.

10.175 An MOU between PNG, the Commonwealth of Australia and the State of Queensland was signed in August 1998 for the purposes of promoting and facilitating the development of the pipeline. According to an ACIL study, benefits of the project include a direct initial investment of around US\$2.5 billion and the total value of output from the project to PNG would increase by up to US\$600 million per year at the project's peak. It would create 1,750 jobs during the construction phase, on which approximately 80 percent would be local workers. Direct employment would be in the order of 500 to 600 people during the 20-plus year operational phase of the project. In addition, the gas project would generate significant revenue for government and landowners of between US\$170 million and US\$285 million per year.³²

10.176 ExxonMobil and Oilsearch, the major proponents of the project consider there to be a number of potential economic and social impacts in PNG if the project does not proceed. For example, Oilsearch advised the Committee that the expectations of material improvement in living standards and the delivery of basic services in the resources areas—specifically the Southern Highlands, Enga and the Western Highlands—remain extremely high:

The expectations of landowners in those areas are enormous. The capacity of the government to deliver these services and address these expectations is, despite recent initiatives, relatively limited. That will remain so if the major pipeline project does not succeed. Without addressing this specific issue, we will see a major negative impact on social and law and order conditions in these areas and probably in other parts of the country, but certainly in the resource rich areas. It is also likely to further attenuate investment and lead to much greater pressure on direct aid funding for social and infrastructure projects in the country.³³

10.177 The project has also included innovative community development initiatives which has included material ownership in the project for local landowners:

As part of the structure of the project, there are direct equity and indirect equity ownerships in the project along the pipeline route and in the project resource areas. There is a direct benefit from production and production activities for landowners. I might also say there is an extremely sophisticated way in which the project area landowners participate in various functions in both the development and the ongoing maintenance of the project. Many of the contracts that are let by the project for security, various supplies and requirements for the projects go to landowner

31 *Submission 18*, p. 2 (Department of Industry, Tourism and Resources) See also, *Submission 55*, pp. 1–2 (Oilsearch Limited)

32 *Committee Hansard*, 28 March 2003, p. 376 (ExxonMobil)

33 *Committee Hansard*, 28 March 2003, p. 378 (Oilsearch)

companies. Again, there is an employment factor and there is a revenue stream factor which benefit the local landowners substantially.

There are very active programs to provide community health, education processes and long-term training for local landowners. It is a substantial part of our business where key operators in the country probably have more than 50 per cent of our staff working on community based activities, be it business development, women's affairs, agricultural projects or social projects of various types. More than half our staff work on those issues. I stress though that one of the transfer mechanisms is that they actually have a direct equity ownership in the project. At Kutubu oilfield, for instance, landowners and provincial governments have around six per cent interest in the project. On top of that they have the royalty streams, employment opportunities and direct help by the project on specific community issues, such as education and, on occasion, roads and health schemes.³⁴

10.178 In terms of the benefits to Australia, Oilsearch also advised the Committee that the presence of the PNG gas project selling gas into Australia into the east coast markets has already had a material impact on energy pricing in Queensland, Victoria and New South Wales but without the PNG project moving forward, competition in gas markets in the southern part of Australia will be reduced.³⁵

10.179 The project has experienced a number of setbacks in securing contracts. However, the Committee understands that the project has recently signed Energex to take between 480 and 1200 petajoules of gas over a 20 year period from 2007.

10.180 Given the potential benefits to both the Australian and the PNG economies, ExxonMobil and Oilsearch recommended that the Australian Government could do the following to assist the project:

- develop an energy policy in conjunction with the States that creates an environment conducive to the use of gas (essentially by not introducing any distortions),³⁶ and
- target investment in specific infrastructure projects—such as the Highlands Highway, health services and fundamental infrastructure.³⁷

Political issues

10.181 The Chief Secretary advised the Committee that minor amendments to the law on the Integrity of Political Parties and Candidates will be made in the May sitting of the Parliament. These amendments are intended to further strengthen the credibility and stability of all levels of Government, including the unnecessary vote of no

34 *Committee Hansard*, 28 March 2003, pp. 385–386 (Oilsearch)

35 *Committee Hansard*, 28 March 2003, p. 378 (Oilsearch)

36 *Committee Hansard*, 28 March 2003, p. 385 (ExxonMobil)

37 *Committee Hansard*, 28 March 2003, p. 383 (Oilsearch)

confidence in legitimately elected Governments by parliamentarians for reasons of political convenience.³⁸

10.182 Similarly, Prime Minister Somare advised the Committee that the *Integrity of Political Parties Act* would provide PNG with much needed stability, and allow the government to focus on a longer term infrastructure development. Prime Minister Somare also considered the reforms to the *Public Management Act* would ensure a better functioning public service and provide further stability in government.

10.183 The Committee understands that the PNG Government is also addressing the issue of electoral reform and the next national election and any future by-elections will be under a system of limited preferential voting following the 2002 amendments to the *Organic Law on National and Local Level Government Elections Act 1997*. In evidence to the Committee, Mr Alan Rumsey stated that he believed that this change “has the potential to remove many of the obstacles to free and fair elections that have been experienced under the first-past-the-post system as it has operated in PNG”.³⁹

Australian development assistance

10.184 Australia’s development assistance program to PNG is substantive and has been well documented throughout the body of the report. However, the Chief Secretary also raised a number of issues for consideration in the future delivery of the aid program. The Chief Secretary considered that more attention needed to be directed to strengthening local government at the district level and more needed to be done to involve rural based communities in the development process.

10.185 In addition, the Chief Secretary stated that the current priority is to address problems with central agencies and government wide processes but failures in these areas represent significant impediments to service delivery:

Arguably this may require a change of focus in the aid program: we could increase the effectiveness of the aid that is directed to supporting service delivery by diverting some in the short to medium term to addressing these impediments and some systemic problems that afflict all government agencies. For example, there is little point in building further schools when existing schools are falling down due to a lack of maintenance. This in turn is a consequence of a massive imbalance in the budget: too much on capital projects and salaries and too little on goods and services funding and a negligible amount on supporting the development of local government, village based and community organisations to participate alongside public sector agencies in service delivery.⁴⁰

10.186 Other issues relating to Australia’s development assistance to PNG have been considered in Chapter Four.

38 *Submission 63*, p. 17 (PNG Department of Prime Minister and National Executive Council)

39 *Submission 52*, p. 1 (Mr Alan Rumsey)

40 *Submission 63*, p. 8 (PNG Department of Prime Minister and National Executive Council)

Border security and transnational organised crime

10.187 During the Committee's visit to Port Moresby, Prime Minister Somare outlined his government's concerns in relation to border security. In particular, Prime Minister Somare was concerned that if the PNG Defence Force was reduced to a small element, it would no longer be able to protect its borders.

10.188 Similarly, the Hon. Sir Rabbie Namaliu, Minister for Foreign Affairs and Immigration and the Hon. Sir Peter Barter, Minister for Inter-Government Relations advised the Committee that there could be closer relations between Australia and PNG in the areas of capacity for surveillance of the Torres Strait, airport security and intelligence sharing.

Samoa

Background

10.189 Samoa is a group of islands located in Oceania, in the South Pacific Ocean, about half way between Hawaii and New Zealand. There two main islands, Savai'i and Upolu. Apia, the capital, is located on the island of Upolu. There are eleven administrative divisions.⁴¹ The population is predominantly Samoan Christian, with about seven percent of European and Polynesian descent. The main languages spoken are Samoan (Polynesian) and English.

10.190 New Zealand occupied the German protectorate of Western Samoa at the outbreak of World War I in 1914. It continued to administer the islands as a mandate and then as a trust territory until 1962, when the islands became the first Polynesian nation to re-establish independence in the 20th century. The country dropped the 'Western' from its name in 1997.

10.191 The Independent State of Samoa is a constitutional monarchy under a native chief of state. Since independence it has demonstrated a robust political system underpinned by constitutional rule and regular elections. Upon the death of the current monarch, Chief Tanumafili II Malietoa, a new chief of state will be elected by the unicameral Legislative Assembly to serve a five year term.

10.192 The Prime Minister is the head of government. Following legislative elections, the leader of the majority party is usually appointed prime minister by the chief of state with the approval of the Legislative Assembly. Cabinet consists of twelve members, appointed by the chief of state with the prime minister's advice.

10.193 Samoa is a small, agriculturally-based, developing, oil importing economy. The economy is vulnerable to international economic developments and natural disasters. Family remittances from Samoans overseas in New Zealand, Australia and

41 Samoa's administrative divisions: A'anga, Aiga-i-le-Tai, Fa'asaleleaga, Gaga'emauga, Gagaifomauga, Palauli, Satupa'iea, Taumasaga, Va'a-o-Fonoti and Vaisigano.

the United States are a significant element of the economy and underwrite national living standards.

10.194 Even though unemployment is widespread, most families have access to land. Subsistence agriculture is the primary economic activity for about two-thirds of households in which they produce coconut products, copra, taro, breadfruit and bananas. The manufacturing sector mainly processes agricultural products. A large proportion of the country's foodstuffs is imported.

10.195 There is a small light industry sector in Samoa, concentrating on providing local import substitutes. The largest industrial venture in Samoa is the production of wire harnesses for motor vehicles, which are manufactured by Yazaki Samoa and exported to Australia. This venture employs over 2,000 workers, making it the largest private sector employer.

10.196 Tourism is an expanding sector, accounting for 16 per cent of GDP. About 85,000 tourists visited the islands in 2000. The Samoan Government has called for deregulation of the financial sector, encouragement of investment, and continued fiscal discipline. Observers point to the flexibility of the labour market as a basic strength for future economic advances. Foreign reserves are in a relatively healthy state, the external debt is stable, and inflation is low.⁴²

Economic issues

10.197 Samoa's positive economic outlook was highlighted in evidence to the Committee and offered as a possible model for emulation by other states in the region:

But there are some success stories in the region, and I think some of the small states do offer possible examples for replication elsewhere. The Samoan case is instructive—or illustrative, at least. Their economy has been growing quite substantially for the last 10 years. It has been a combination of remittances home by outward-migrating Samoans who have assisted that process; it has been assisted by Samoans returning to Samoa, having worked in New Zealand and Australia and the United States west coast..⁴³

10.198 The Committee was also advised of Samoa's economic growth having been assisted by a number of initiatives in the domestic fishing industry:

...the Samoan domestic fishing industry, which is on a commercial scale not for the local market, has taken off dramatically in the last five years. We have seen the village fishermen extend the size of their boats, go out beyond the reef more, establish small-scale chilling works onshore, catch tuna on long lines out the back of motorised canoes—believe it or not—and bring their catch in and, in the chilling containers, ship it across to American

42 Samoa, CIA World Factbook 2002, updated 19 March 2003 (<http://odci.gov/cia/publications/factbook/print/ws.html>) and Department of Foreign Affairs and Trade background paper, May 2003.

43 *Committee Hansard*, 18 October 2002, p. 24 (Hegarty)

Samoa, where there have been two canneries for the last 30 or 40 years. That has taken off around the country as a sort of entrepreneurship around domestic fishing that has substantially boosted domestic incomes and government revenue as a result, and there has been a bit of an increase in tourism there, so there is a case in the region which shows some forward movement.⁴⁴

10.199 The Prime Minister of Samoa, the Hon. Tuilaepa Sailele Malielegaoi, identified the pressures of being a good performer in the region. However, Samoa is considered to be the leading Pacific state in economic and public sector reform after introduction of extensive liberalisation packages. Samoa has focused on the private sector and implementation of WTO programs in relation to the liberalisation of the banking sector. These have been in line with Samoa's application for membership of the WTO.

10.200 Representatives of the Samoa Chamber of Commerce and Industry also advised the Committee of the very constructive working relationship the Chamber has with the Government which has been very important for investment and private sector development. The Chamber of Commerce believe that through the Government's constant consultation with the private sector, it considers the private sector a key partner in development.

10.201 Given the significance of remittances from Samoans overseas, as a source of external income for the Samoan economy, labour mobility is widely supported in Samoa. Opposition Members directly requested the Committee to consider increasing access to Australia's labour market by Pacific islanders.

10.202 As noted above, tourism is an expanding sector in Samoa and the Samoa Chamber of Commerce and Industry supported private sector growth in tourism as the next step in building the economy, primarily because such investment makes sense in employment terms. However, the Chamber identified a need for more planning in relation to a tourism strategy, particularly in relation to land issues and security of investment in the industry. The Committee's recommendations in relation to tourism planning and coordination should assist Samoa with these issues.

10.203 Domestically, the Chamber also identified a need for the government or a statutory body to manage potential developers with a view to ensuring tourism incorporates Samoan culture.

10.204 The Samoa Chamber of Commerce and Industry highlighted the difficulties in exporting fish which has an impact on national income. Fish is currently flown from Samoa to its export markets but this has to be done on commercial flights. Therefore, costs are high and there tends to be seasonal fluctuations in supply as this coincides with seasonal peaks and troughs in terms of tourism. The Chamber identified a need to develop freight lines and tourist lines between Samoa and Australia in order to facilitate its trade in fish.

44 *Committee Hansard*, 18 October 2002, p. 24 (Hegarty)

10.205 In relation to governance, the Committee notes the Samoan Government's progress to date in relation to auditing and accountability through financial reviews. The Committee considers these functions to be vitally important to efficiency and transparency and also encourages the use of performance reporting in addition to financial reporting.

10.206 The Committee notes that whilst some aspects of Samoa's reform may be a model for replication by other states in the region, the Committee also notes that some of Samoa's success has inevitably stemmed from a well integrated society and a stable government, committed to reform.

Australian development assistance

10.207 The Committee notes that Samoa is implementing Institutional Strengthening Projects in the following areas:

- Public Service Commission;
- Immigration Department;
- Quarantine;
- Ministry of Health;
- Ministry of Agriculture, Forestry, Fisheries and Meteorology Services; and
- Ministry of Education.

10.208 The May 2003 Draft Review of Institutional Strengthening Projects in Samoa provides a useful guide to both the Samoan and Australian Governments, particularly in identifying which strategies are working well and those that are not. The Committee is encouraged by the Draft Review and particularly notes the following summary:

The Review's assessment of the ISPs' contribution to the GOS [Government of Samoa] reform program is favourable. It concludes that the AusAID/GOS investment in ISPs is yielding good returns and has provided a solid foundation on which to build continuing improvements in public sector efficiency and effectiveness. As could be expected, some projects have encountered some problems. However, the Review considers that the ISPs as a group have been at least as effective in supporting reform objectives as others in the region and perhaps more so.⁴⁵

Education

10.209 Samoa has been focussing on the development of its tertiary education system by renovating and staffing the University of Samoa. The Minister for Education, believes that as the university grows, it will remove the need for Samoans and other Pacific Islanders to go to Australia and New Zealand for their tertiary education.

45 Review of Institutional Strengthening Projects in Samoa, 2 May 2003, p. ii.

10.210 The Samoa Chamber of Commerce and Industry, whilst supporting the university, also expressed concern that the focus on education may have shifted from primary and secondary education to tertiary education. Members of the Opposition considered education to be one of the highest priorities and sought more funding for all areas of education.

The role of the churches in development

10.211 The Committee met with representatives from thirteen different churches during its visit to Apia (see Appendix 3). The Committee again acknowledges the important role church organisations play in development, particularly at ‘grassroots’ levels.

10.212 All churches would like to see an increase in funding to the churches for specific service delivery, particularly as churches in Samoa play an important role in education. The Committee notes these concerns and where appropriate accountability and transparency arrangements are in place, such projects should be supported. The Committee considers the High Commission’s ‘Discretionary Fund’ outlined below may be an appropriate way for church organisations to seek such funding.

10.213 The Committee also notes the concerns of church groups in Samoa that Samoans in Australia tend to have difficulties in establishing new churches and issues relating to length of stay for ministers servicing those churches and communities.

‘Discretionary Fund’ projects

10.214 Opposition members encouraged “quality of life” projects such as water supplies, particularly for those in remote villages. For such projects, the Committee understands that the High Commission has a discretionary fund from which it can fund small community projects.

10.215 More generally, the Samoa Chamber of Commerce and Industry stated that it has a good working relationship with AusAID and the in-country training programs in areas such as performance management have been very valuable.

The future

10.216 The Committee was informed about the need to focus on technology and the need for telecommunications infrastructure in both the areas of business and education. In particular, the Samoa Chamber of Commerce and Industry suggested that there needed to be more education about the role technology will play in the future of development.

10.217 It was stressed to the Committee during its visit that there is a need to consider what prospects there are for these departments and agencies when the institutional strengthening projects come to an end. Australia has often been criticised for withdrawing from a project or concluding a project without any thought for continuous responsibility. It was recommended by many of the heads of departments that there will be a need for specific funds to follow at the end of the projects but such

funding would not necessarily be to the extent of the initial set-up of the projects. For example, the health sector ISP has a view to areas such as telemedicine in the future and thought must be given to those aspects.

10.218 Whilst the Committee understands this rationale and accepts these arguments, as discussed throughout the report, it is still essential that a dependency and expectation is not created for continuous funds in these areas but that Australia works to build the capacity of the recipient country to be able to resource its own initiatives in the future.

10.219 The Draft Review also identified a number of possible future ISPs for Samoa in the following areas:

- The Audit Office of Samoa (capacity to undertake both financial and performance auditing);
- Cabinet Processes;
- The Department of Statistics;
- State Owned Enterprises; and
- Support for Samoan Parliamentarians.

10.220 The Committee strongly supports ISPs in these areas and Members of the Opposition in Samoa were also very supportive of an ISP for parliamentarians.

Resource and disaster management

10.221 Three days prior to the Committee's visit to Samoa, much of the west coast of the island had been devastated by fierce winds and flash flooding. The ISP focussing on meteorology advised the Committee that cyclone early warning systems were an issue under consideration.

Border security and transnational organised crime

10.222 As mentioned in Chapter Seven in relation to security issues facing the Pacific, border security is one of the most important challenges facing virtually all countries in the Pacific and is an issue particularly important to Australia's security. Samoa, as much as any other, is facing this challenge, particularly given its proximity to American Samoa whose security outlook is largely influenced by the United States of America. For example, American Samoa has American gun laws which are far more lenient than those in countries such as Australia.

10.223 HE Prime Minister Tuilaepa Sailele Malielegaoi informed the Committee that border security was an area his government was particularly concerned about and one which his government was giving priority but that it did not have the resources to fully combat the issue. For example, the Prime Minister expressed a need for better aerial search capacity for both security issues and search and rescue. These issues have also been considered earlier in the report.

10.224 The Committee was pleased to meet with the Transnational Crime Unit (TCU) that was established earlier this year with the assistance of the Australian Federal Police (AFP). The staff of the TCU gave the Committee insight into the training and operations of the unit and the Committee considers such units to be highly valuable in terms of addressing security issues and transnational crime.

10.225 The TCU is focussed on the following areas:

- organised crime;
- money laundering;
- terrorism;
- narcotics;
- weapons;
- internet and IT crimes; and
- exploitation of women and children.

10.226 The Committee notes Samoa's contribution to the Regional Assistance Mission to the Solomon Islands.

Solomon Islands

Background

10.227 The Solomon Islands is a group located in Oceania, in the South Pacific Ocean, east of Papua New Guinea. It has nine provinces and one capital territory.⁴⁶ Honiara, the capital, is located on the island of Guadalcanal. The country has a predominantly Melanesian Christian population. There are 120 indigenous languages, the main one used is Melanesian pidgin. English is the official language, but is spoken by only two per cent of the population.

10.228 The British Government established a protectorate over the Solomon Islands in 1893. The Solomon Islands was the scene of some of the bloodiest land, sea and air battles of World War II from 1942 to 1945. After World War II the indigenous people demanded self-rule; this was achieved in 1976 and independence two years later.

10.229 The unicameral national parliament comprises fifty members, elected for a four year term under a 'first past the post' voting system. The prime minister is elected by an absolute majority of Members of Parliament. In addition to the national government, there are nine provincial assemblies, each led by a premier.

10.230 In recent times, ethnic violence, government malfeasance and endemic crime have undermined stability and civil society. Ethnic tension escalated on Guadalcanal

46 Administrative divisions: Central, Choiseul (Lauru), Guadalcanal, Honiara (capital territory), Isabel, Makira, Malaita, Rennell/Bellona, Temotu and Western.

in December 1998: Guadalcanal people resented the influence of settlers from other islands and their occupation of the land. The settlers, particularly from Malaita, were drawn by economic opportunity to Honiara, and its environs.

10.231 Since 1998, the Solomon Islands government and the Royal Solomon Islands Police have faced serious challenges in dealing with the growing tensions between the rival Malaitan and Guadalcanal militant groups. Violence increased in mid-1999. In an attempt to assist the Solomon Islands Government to stabilize civil society and re-establish law and order, a Commonwealth sponsored Multinational Police Peace Monitoring group was sent to Honiara in October 1999.

10.232 Despite the best efforts of peace negotiators, disruption to civil society continued. In June 2000, Malaita Eagle Force (MEF) militants, together with disaffected police officers, seized control of key installations in Honiara and took Prime Minister Ulufa'alu hostage and forced him to resign. Subsequently, the insurgents coerced the Parliament to install a new prime minister and to form a new government.

10.233 Peace negotiators continued to broker an agreement with the militant groups which concluded with the signing of the Townsville Peace Agreement (TPA) in October 2000. The agreement provided a framework for implementing peace, civil stability and law and order.

10.234 While the TPA brought an end to almost two years of high level violence by Malaitan and Guadalcanal militants a number of former militants continue to operate personal 'fiefdoms' with armed followers. Some militant groups split and engaged in internecine conflict; some others have pursued criminal activities. This contributed to a general climate of lawlessness and criminal violence, particularly in Honiara, elsewhere on Guadalcanal, and on Malaita, and exacerbated the ongoing social and economic decline in the Solomon Islands.

10.235 Elections were held in December 2001, which returned a government with a mandate to redress the country's decline. The elections proceeded peacefully and the large contingent of international observers concluded the elections to be fair and reflected the will of the people of Solomon Islands.

10.236 Sir Allan Kemakeza, from the People's Alliance Party, was elected Prime Minister in December 2001. The Prime Minister and his Cabinet have made efforts to address law and order problems, to develop credible economic policies, and to include the wider community in discussions to address the major problems facing Solomon Islands.

10.237 An estimated five per cent of the population is employed in the formal sector of the economy. The bulk of the population depends on agriculture, fishing, and forestry for at least part of their livelihood. Most manufactured goods and petroleum products must be imported. The islands are rich in undeveloped mineral resources such as bauxite, phosphates, lead, zinc and gold.

10.238 The Solomon Islands economy contracted by 25 per cent in 2001. The per capita GDP now stands at half of what it was at independence in 1978. The violence associated with the ethnic conflict has caused extensive damage to personal property, transport infrastructure, schools, water supply and sanitation systems, government buildings and the health sector. Telecommunications are threatened by the nonpayment of bills and by the lack of technical and maintenance staff, many of whom have left the country.

10.239 At a donors meeting convened by the Solomon Islands Government in June 2002, the international donor community reaffirmed its commitment to assist Solomon Islands provided the new government was prepared to tackle the serious law and order problems and to introduce responsible economic policies, including a credible budget. Australia continued its support to Solomon Islands by providing record levels of assistance in the years 2000–2003.⁴⁷

10.240 As has been well documented in recent months and explored elsewhere in the report, following the invitation of the Solomon Islands Government (and the passing of necessary legislation in the Solomon Islands), Australia is from mid-2003 leading the Regional Assistance Mission to the Solomon Islands in an unprecedented exercise of regional cooperation. The Mission is a policing operation to restore law and order, supported by armed peace-keepers, to be followed by a program to assist and strengthen the justice system and restore the economy and basic services.

Tokelau

Background

10.241 Tokelau comprises a group of three atolls in the South Pacific Ocean, approximately half way between New Zealand and Hawaii. The atolls were originally settled by Polynesian emigrants from neighboring island groups.

10.242 The first European to discover the islands was Commodore John Byron in 1785. The islands were made a British protectorate in 1889 and were transferred to New Zealand administration in 1925. Tokelau became the official name of the islands in 1946 and in 1948 the islands were included in the territory of New Zealand.

10.243 Tokelau is administered by the New Zealand Ministry of Foreign Affairs which appoints an Administrator for a term of three years. Most of the powers of the Administrator are delegated to the Tokelau Apia Liaison Office, the General Fono (Assembly) and the Council of Faipule. Tokelau is governed principally through its General Fono which meets at least twice yearly and approves the general budget.

47 Solomon Islands, CIA World Factbook 2002, updated 19 March 2003 (web address: <http://odci.gov/cia/publications/factbook/print/bp.html>) and Department of Foreign Affairs and Trade background paper, May 2003.

10.244 Each atoll has its own island council, or Taupulega, which comprises the heads of family groups together with two elected members, the Faipule and the Pulemuku. The Faipule represents the atoll in its dealings with the administering power and the public service and presides over the Council and the court. The Pulemuku is responsible for the administration of village affairs. The three Faipule are elected for three year terms and together form the Council of Faipule (Cabinet). One of the Council is chosen to hold the title Ulu-O-Tokelau (Head of Tokelau) for one year.

10.245 Tokelau's legislative and judicial system is based on the Tokelau Islands Act 1948. The Act provides for a number of British regulations to continue in force and, where no other legislation applies, the law of England and Wales in 1840 is to be applicable. New Zealand statute law applies in Tokelau only if specifically extended to the islands. Most cases are judged by the Commissioner established on each island, who has limited jurisdiction in civil and criminal matters.

10.246 Agriculture, including fishing is of a basic subsistence nature. The exception being the production of copra. Coconuts (the source of copra) are the only cash crop. The sale of fishing licenses for Tokelau's exclusive economic zone (200 NM) to foreign fleets together with fees from shipping, radio and telegram excises and customs duties are important sources of governmental income. The opening in 1990 of a tuna processing factory on Atafu (the North-Western island) is also an important source of income.

10.247 Other forms of revenue include the sale of stamps and souvenir coins and revenue provided from remittances from Tokelauans working abroad, predominately in New Zealand.

10.248 Radio-telephone provided the main communications link with other areas up until the late 1990s. A new telecommunications system operating through an earth station, linked to a communications satellite became operational in 1997. A radio station was to commence operation in 2002, broadcasting information and music.

Current issues

10.249 Like many of the smaller Pacific island nations, Tokelau suffers from a lack of natural resources, making it difficult to sustain a growing economy and overcrowding of the islands leading to the emigration of the local populace; in this case to New Zealand as Tokelauans are New Zealand citizens. The impact of climate change and global warming are also significant issues for Tokelau.

The Kingdom of Tonga

Background

10.250 The Kingdom of Tonga is in Oceania, in the South Pacific Ocean, about two-thirds of the way from Hawaii to New Zealand. Its administrative divisions are spread across three island groups: Ha'apai, Tongatapu and Vava'u. Nuku'alofa, the capital, is located in the Tongatapu group. The country has a Polynesian Christian

population, with a small European community. The main languages spoken are Tongan and English.

10.251 The archipelago of the ‘Friendly Islands’ was united into a Polynesian kingdom in 1845. It became a constitutional monarchy in 1875 and a British protectorate in 1900. Tonga acquired its independence in 1970 and became a member of the Commonwealth of Nations. It remains the only monarchy in the Pacific.

10.252 Under the Tongan constitution, the executive consists of the King in Privy Council and Cabinet, the Legislative Assembly and the Judiciary. The monarch appoints for life the prime minister and deputy prime minister. The monarch also appoints the judiciary and the cabinet, which has twelve members.

10.253 The unicameral Legislative Assembly, or Fale Alea, consists of the ministers and two governors, nine elected noble titles and nine elected representatives of the people. Elections for the nobles’ and the peoples’ representatives are held separately every three years.

10.254 Tongan society remains conservative, with reverence for the monarchy and strong attachments to the church. In recent years there has been growing public interest for the case for political reform and on publicizing instances of public waste and mismanagement. Despite growing political interest and activity, there is no significant challenge to the position or authority of the King; with any change being widely regarded as his prerogative to initiate. Tonga has traditionally placed considerable importance on maintaining social and political harmony, consensus and tolerance.

10.255 Tonga has a small, open economy with a narrow export base in agricultural goods. Squash, coconuts, bananas and vanilla beans are the main crops, and agricultural exports make up two-thirds of total exports. The country imports a high proportion of its food, mainly from New Zealand. The country remains dependent on external aid and remittances from Tongan communities overseas to offset its trade deficit.

10.256 The government is emphasizing the development of the private sector, especially the encouragement of investment, and is committing increased funds for health education. Tonga has a reasonably sound basic infrastructure and well-developed social services.

10.257 Tourism is the second largest source of hard currency earnings following remittances. Tonga is growing as a place for economy-tourism, with whale watching and diving popular activities. Tourism is a potentially large industry, but its

development is hampered by some infrastructure limitations and inadequate support facilities.⁴⁸

Economic issues

10.258 Austrade identified a number of impediments to trade with Tonga, including:

- high tariff levels;
- quarantine restrictions;
- the cost of shipping; and
- irregular and unreliable air services to the region.⁴⁹

10.259 The Committee met with the Governor of the Reserve Bank of Tonga and the Minister for Finance who advised the Committee that through Tonga's application to join the WTO, they are slowly lowering tariffs.

10.260 The March/April 2003 Economic Report of the Tonga Development Bank stated that the official foreign reserves decreased by T\$1.7 million in March 2003, to T\$36.0 million, an amount equivalent to 2.2 months of import coverage. Compared to the same period of last year, this was an improvement of 48 per cent. The low level of foreign reserves will continue to make the economy more vulnerable to external shocks. In addition, the annual rate of inflation for January 2003 was 10.0 per cent.

10.261 The Governor of the Reserve Bank and the Minister for Finance also stressed to the Committee Tonga's high dependence on imports and remittances and that the economy is very vulnerable to shocks and environmental factors.

10.262 The Committee notes the Kingdom of Tonga's *Strategic Development Plan* 2001–2004. The overall key themes of the Plan are: reforming and restructuring for higher sustainable economic growth; ensuring financial stability; and investing in people. Part of the Plan is for tax reform which is currently not conducive to foreign investment with foreign corporate tax at 42½ per cent (17 per cent for local companies). The Kingdom of Tonga plans to lower the tax rate for foreign companies to 20 per cent and raise the tax rate for local companies to 20 per cent.

10.263 The Governor and the Minister for Finance highlighted issues such as a need for a marketing body for exports and unemployment as issues needing to be addressed.

10.264 Tourism was highlighted as being one way to increase national income, promote private sector development and address unemployment and AusAID

48 Tongas, CIA World Factbook 2002, updated 19 March 2003
(web address: <http://odci.gov/cia/publications/factbook/print/tn.html>)
Department of Foreign Affairs and Trade background paper, May 2003.

49 *Submission* 25, p. 26 (Austrade)

currently is currently running a project in Tonga to assist with its tourism industry. However, a number of constraints to the development of tourism have been identified:

- Land tenure: the current system of land tenure in the Kingdom makes it difficult for investors to obtain prime development sites with a long lease. Investors and financial institutions require long term leases—usually with a minimum of 75 years as security for investing significant sums of money.
- Residency tenure: a non-Tongan resident must also renew their working/resident visas every two years. Irrespective of the investment operators have brought into Tonga, there is no guarantee that visas will be renewed. As a result, potential investors are reluctant to invest significant amounts of money in Tonga if they have no security of residency in the Kingdom.
- Complex, non-transparent and discretionary tax system, investment incentives and licensing system: As noted above, Tonga's corporate tax system for foreign investors is high, discriminatory and not competitive with regional neighbours. Incentives offered through the Industrial Development and Incentive (IDI) Act is discretionary and not performance based. In addition, there is a high level of import duties on capital items and a 15 per cent withholding tax on distributed dividends which raise the tax to distributed income to more than 51 per cent. The complex system of licensing has also been identified as a problem affecting tourism industry operators. A one stop shop has been proposed in the past but has yet to materialise. The Government is attempting to address many of these issues and has introduced a new Foreign Investment Bill and Business Licence Bill.
- Perception that foreign investment is tolerated: There is a perception that foreign investment is tolerated rather than encouraged and that successful operations are not openly welcomed. To date, Tonga has relied significantly on tax based incentives to encourage foreign investment and it is doubted whether these measures have had the desired effect in encouraging significant foreign investment into Tonga. The system is bureaucratic and non-transparent.

10.265 The Committee also notes that the geographic spread and isolation of its many islands exacerbates the problems of development, particularly as 68 per cent of the population is rural and there are limited opportunities for employment among this group, particularly uneducated youth.

10.266 The Committee understands that the Kingdom of Tonga and the Government of Fiji are currently in dispute over the boundaries of their respective Exclusive Economic Zones.

Political issues

10.267 The Prime Minister advised the Committee that the Kingdom had terminated its “flags of convenience” scheme. However, some ships had already been registered under the scheme and the Prime Minister assured the Committee that those ships had been advised that the carrying of illicit material would result in a cancellation of their registration.

10.268 The Committee also notes the recent issue in relation to the banning of the *Taimi 'o Tonga* newspaper⁵⁰ from the Kingdom and the overturning of the ban by the Chief Justice.

Australian development assistance

10.269 Australia's bilateral assistance of \$9 million has a sectoral focus in three broad areas:

- Supporting the Government's reform program (particularly improvements to budgeting and financial control, revenue collection and statistics).
- Strengthening economic productivity (focussed on fisheries and tourism).
- Community development (including electrification, solid waste management and small-scale community projects).

10.270 These activities are complemented by a scholarships program in Australia and at regional institutions, in-country courses which support the reform program and improvements to economic productivity and a technical assistance governance facility which provides short-term, high level advisers to government agencies seeking support to strengthen their reform efforts.

10.271 The Governor of the Reserve Bank and the Minister for Finance suggested to the Committee that areas where assistance might be necessary included education and issues associated with deregulation of the economy on the people of Tonga.

Environmental issues

10.272 The Committee met with Mrs Fekita 'Utoikamanu, Secretary for Foreign Affairs who advised the Committee that climate variability (e.g. El Nino) has significant consequences for the Asia-Pacific, including Tonga. For example, cyclones have hit Tonga less than ten times in the last ten years with the latest in February 2003. Current and future economic plans for Tonga depend on resources (such as beaches, coral reefs, fisheries) or activities (such as tourism) affected by climate variability and change.

Border security and transnational organised crime

10.273 In relation to border security and transnational organised crime issues, the Committee was generally advised of the need for more resources in relation to police and justice sectors and an inadequacy of legislation to deal with terrorism and transnational crime.

10.274 The Prime Minister advised the Committee that Australian patrol boats provided under the Defence Cooperation Program could more. However, the Kingdom

50 The *Taimi 'o Tonga* newspaper is published and printed in New Zealand.

of Tonga also had light aerial surveillance which the Prime Minister suggested was cheaper to run.

10.275 The Secretary of Foreign Affairs advised the Committee that whilst Tonga is considered an area of low potential for occurrence of international terrorism, Tonga has made a firm commitment to cooperating with the UN to combat international terrorism. For example, Tonga is addressing this issue through legislation, and in November 2002, Tonga became signatory to the remaining nine of the twelve conventions required under Security Council Resolution 1373. The Committee also notes Tonga's contribution to the Regional Assistance Mission to the Solomon Islands.

10.276 The Secretary of Foreign Affairs also advised the Committee that there has been a marked increase in the number of young Tongans being returned to Tonga following criminal conviction and in many cases after they have served their time. This trend is of social importance to Tonga because there has been a trend of re-offending in Tonga. There is also the issue of their being able to integrate into Tongan society, after residing overseas for many years, and with a large number of their immediate family still overseas.

Tuvalu

Background

10.277 Tuvalu is an island group consisting of nine coral atolls in Oceania, in the South Pacific Ocean, about half way from Hawaii to Australia. The capital, Fongafale, is located on the island of Funafuti. The languages spoken are Tuvaluan, English, Samoan and Kiribati. 'Tuvalu' means 'group of eight, referring to the country's eight traditionally inhabited islands.

10.278 The population is predominantly Polynesian Christian with a small percentage of Micronesian descent. The Pacific is one of the most heavily Christianised regions in the world. But now, another faith is sending out missionaries to convert people. The Ahmadiyya Muslim sect has established a base in Fiji, and is working in Samoa, Tuvalu, Tonga and lately the Marshall Islands to attract Pacific Islanders to Islam.

10.279 In 1974, ethnic differences with the British colony of the Gilbert and Ellice Islands caused the Polynesians of the Ellice Islands to vote for separation from the Micronesians of the Gilbert Islands. The following year, the Ellice Islands became the separate British colony of Tuvalu. Independence was granted in 1978.⁵¹

51 Tuvalu, CIA World Factbook 2002, updated 19 March 2003 (web address: <http://odci.gov/cia/publications/factbook/print/tv.html>) and Department of Foreign Affairs and Trade website: http://www.dfat.gov.au/geo/tuvalu/tuvalu_brief.html, 29 July 2003.

10.280 In the short period of its independence, Tuvalu has demonstrated how an island economy can be successfully managed despite isolation, small size and vulnerability to external influences. Tuvalu will celebrate its 25th Anniversary of Independence on 1 October 2003.

10.281 Tuvalu is a constitutional monarchy with a 15 member unicameral parliament elected every four years. Cabinet consists of the prime minister, elected by a majority of the members of parliament, and up to five ministers. There are no organized political parties, and members usually align themselves in informal groups. MPs have very close links with their island constituencies and effort is directed towards balancing island representation in Cabinet.

10.282 Each of Tuvalu's eight inhabited islands is based around a single village and has a distinct sense of community and identity. Traditional councils operate in tandem with the established government and are the supreme authorities on matters of custom. Under the Falekaupule Act of 1997, increasing autonomy was given to the island councils to determine development priorities within the central government's overall development goals. The development goals include public sector reform, human resource development, improvement of the country's economic and education infrastructure, and the further development of its capacity to manage its narrow resource base.

10.283 The economy of Tuvalu, like the nation itself, is small, isolated and vulnerable to external influences. Most of the population is involved in subsistence fishing and agriculture. The money economy is dominated by government activity.

10.284 In order to provide a safety net against fluctuations in government income, the Tuvalu Government established in 1987 a publicly owned investment fund, the earnings of which are used to help the Government to finance the gap between its annual budgeted revenue and expenditure.

10.285 In 1998, Tuvalu began deriving revenue from use of its area code for '900' lines and in 2000, for the lease of its highly marketable ".tv" internet domain name. Royalties from these new technology sources could raise GDP substantially over the next decade. With merchandise exports only a fraction of merchandise imports, continued reliance must be placed on fishing and telecommunications licence fees, remittances from overseas workers, official transfer, coins and stamps, and investment income from overseas assets.

Current issues

10.286 One of the main issues affecting Tuvalu is the impact of sea level rise. The Committee has considered this issue and the request for recognition of an 'environmental refugee' category in Chapter Six.

Vanuatu

Background

10.287 The Vanuatu group of islands is located in the South Pacific Ocean approximately one quarter of the way between Australia and Hawaii. The chain of islands comprises four main islands and over 80 smaller islands. Several of Vanuatu's islands have active volcanoes.

10.288 The islands of Vanuatu have been inhabited for thousands of years. Ancient pottery has been discovered throughout the archipelago. The earliest known settlement has been dated at over 6,000 years old. The first European sighting of the islands was by Spanish explorer Ferdinand Pedro de Quiros in 1606. Captain Cook charted the islands in 1774 and named them the "New Hebrides" after the group of islands off the Scottish coast. The London Missionary Society first sent missionaries to the islands in 1839 who were promptly massacred. It was not until some decades later that missions were established throughout the archipelago. Today more than three quarters of the population is Christian.

10.289 In 1906, the British and French Governments agreed to form a condominium, under which the islands were provided with a public service, court system, police force and a resident commissioner from each government. As a result, the politics of the islands, even today, continues to be split along an anglophile vs. francophile divide (together with factional rivalries) which has made for frequent changes of government. There have been six changes of government since 1995.

10.290 The republic of Vanuatu was established on 30 July 1980. The 52 members of the Vanuatu (unicameral) parliament are each elected for a term of four years. The Prime Minister is elected by the Members of Parliament via secret ballot. The Prime Minister then appoints a further 12 MPs to join him to form the Council of Ministers. This executive body oversees the administration of Vanuatu's 13 government ministries. The President, who is Head of State, is elected for a five year term by an electoral college which consists of the parliament and the leaders of the six provincial governments. Vanuatu is in the unusual position of being a full member of both the British Commonwealth and the French League of Nations.

10.291 Vanuatu's economy is primarily based on small scale agriculture and subsistence farming which together provides a living for almost two thirds of the population. The main cash crop and most important rural sector economic activity is copra. Almost 70,000 hectares of land are under coconut plantation, producing 50,000 tons of copra per year. Other exports include coconut products, beef, timber, cocoa and coffee.

10.292 Commercial laws introduced in the 1970's led to the development of an offshore banking and finance centre based in Port Vila. This finance sector contributes significantly to government revenue through the payment of stamp duties, license and registration fees etc. The OECD accused Vanuatu of involvement in money laundering activities in its bid to set up an offshore banking industry. Vanuatu also has

a range of tax incentives including no income taxes, corporate taxes, estate duties, gift duties capital gains tax, succession duties, double taxation agreements or withholding taxes.

10.293 In addition to the banking area, the Vanuatu government has recently embarked on a plan to establish Vanuatu as an offshore cyberspace port from which companies may conduct legitimate forms of e-business.

10.294 Like many of its neighbors, the sale of fishing licenses to foreign fishing fleets is also an important contributor to government revenue.

Current issues

10.295 A majority of Vanuatu's populace does not have access to a reliable source of potable water. Other environmental issues include vulnerability to natural disasters such as earthquakes and tsunamis due to volcanic action; deforestation of the islands is also an ongoing problem. As with the majority of Pacific island nations, Vanuatu suffers from a lack of marketable commodities. This is compounded by its distance from sizable export markets. Political instability due to factors mentioned above is also an issue of concern.

